



Jackson, Michigan

ANNUAL FINANCIAL REPORT

For The Years Ended June 30, 2004 and 2003



REHMANN ROBSON

Certified Public Accountants



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JACKSON COMMUNITY COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS YEARS ENDED JUNE 30, 2004 AND 2003

Management's discussion and analysis (MD&A) of Jackson Community College's financial statements provides an overview of the College's financial position as of June 30, 2004 and 2003 and its activities for the years then ended. The College's management has prepared and is responsible for the financial statements and the related footnote disclosures, along with the discussion and analysis.

Using the Annual Financial Report

In June 1999, the Government Accounting Standards Board (GASB) released Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Changes in Statement No. 34 require a comprehensive one-line look at the College as a whole including capitalization and depreciation of assets. In November 1999, GASB issued Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, which applies these standards to public colleges and universities. The State of Michigan has adopted these standards and therefore, has revised and issued the *Manual for Uniform Financial Reporting for Michigan Public Community Colleges, 2001*.

In May 2002, GASB released Statement No. 39 “*Determining Whether Certain Organizations are Component Units*”. Statement 39 requires that separate legal entities associated with a primary government that meet certain criteria are included with the financial statements of the primary reporting unit. In compliance with this Statement, the Jackson Community College Foundation is presented in the College's basic financial statements as a component unit of the College and its financial activity has been blended with that of the College for financial reporting purposes.

This annual financial report includes this management's discussion and analysis, the report of our independent auditors, the basic financial statements in the above referred format, and notes to financial statements. Following the basic financial statements and notes are supplementary schedules, including Combining Balance Sheets and Combining Statements of Revenues, Expenses, and Transfers and Changes in Net Assets. These supplementary schedules are required by the State of Michigan for a three-year period during which public community colleges are transitioning to the GASB 35 reporting format. After that time, the schedules will no longer be required. Though GASB does not require this information be present for a fair and complete presentation, supplemental schedules are intended to provide additional information regarding the various funds and activities of the College that is not presented in the basic, entity-wide statements.

Financial Highlights

The audited financial statements for Jackson Community College include the complete presentation of net assets and changes therein. Traditionally, the emphasis has been on the General Fund, or the portion of the institution primarily concerned with instruction and its support. It is this fund that the State of Michigan uses in its appropriation allocation each year. The following revenues and expenses sections of this analysis detail this portion of our operations, considering its importance to the overall health of the College.

The Balance Sheets and the Statements of Revenues, Expenses, and Changes in Net Assets

One of the most important questions asked about the College's finances is, "Is Jackson Community College as a whole better or worse off from a financial standpoint as a result of the year's activities?" The Balance Sheets and the Statements of Revenues, Expenses, and Changes in Net Assets report information on the College as a whole and on its activities in a way that attempts to answer this question. When revenues and other support exceed expenses, the result is an increase in net assets. When the reverse occurs, the result is a decrease in net assets. These two statements report the College's net assets and changes in them during each fiscal year presented.

You can think of the College's net assets - the difference between assets and liabilities - as one way to measure the College's health, or financial position. Over time, increases or decreases in the College's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider many other nonfinancial factors, such as the trend in college applicants, student retention, condition of the buildings, and strength of the faculty, to assess the overall health of the College.

These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by private-sector institutions. All of the current and prior years' revenues and expenses are taken into account regardless of when cash is received or paid.

Condensed Balance Sheets

	June 30,	
	<u>2004</u>	<u>2003</u>
ASSETS		
Current assets	\$10,601,197	\$10,244,437
Noncurrent assets	10,490,089	9,068,775
Capital assets	<u>17,318,970</u>	<u>17,982,886</u>
Total assets	<u>\$38,410,256</u>	<u>\$37,296,098</u>

June 30,
2004 2003

LIABILITIES

Current liabilities	\$ 4,984,085	\$ 4,192,442
Noncurrent liabilities	<u>2,235,000</u>	<u>2,932,265</u>
Total liabilities	<u>7,219,085</u>	<u>7,124,707</u>

NET ASSETS

Invested in capital assets, net of related debt	14,688,970	14,607,451
Restricted:		
Nonexpendable	1,095,571	1,093,278
Expendable	1,059,224	1,030,165
Jackson Community College Foundation	8,231,895	7,404,541
Unrestricted	<u>6,115,511</u>	<u>6,035,956</u>
Total net assets	<u>31,191,171</u>	<u>30,171,391</u>

Total liabilities and net assets	<u>\$38,410,256</u>	<u>\$37,296,098</u>
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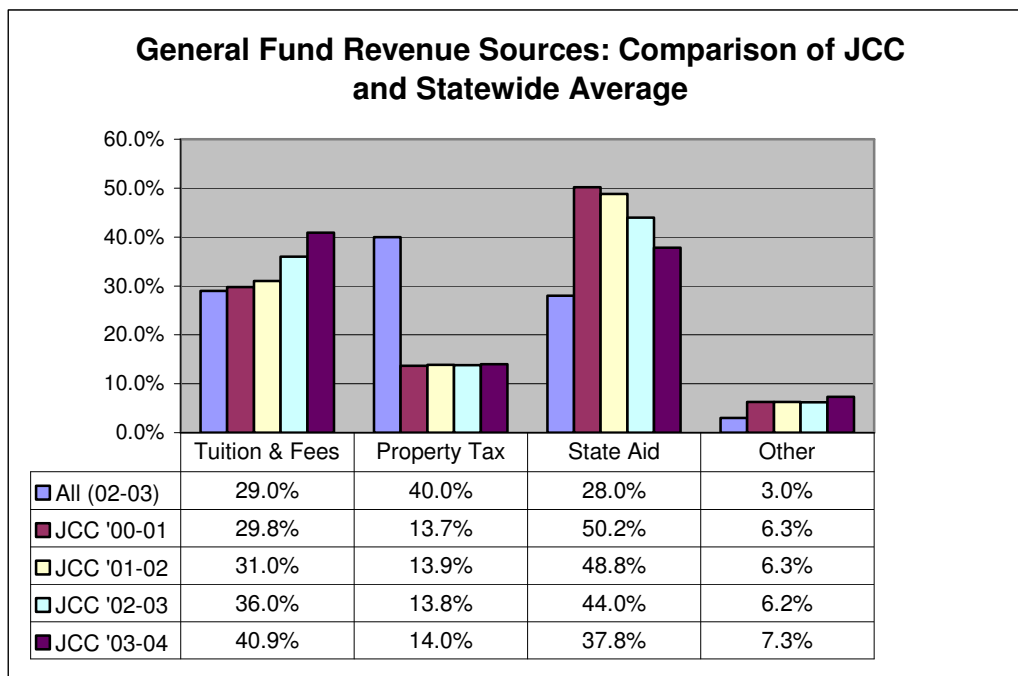
Current year operations did not result in major changes in the College's overall financial position, although there are changes in the make up of net assets. The small change in the College's total net assets did include the major portion of the costs incurred in the construction of our new Lenawee Center in Adrian, Michigan. The increase in the net assets related to the JCC Foundation of \$827,354 is primarily due to the stock market recovery with fiscal 2004 investment income of \$1,084,408 compared to \$236,234 for fiscal 2003.

Condensed Statements of Revenues, Expenses and Changes in Net Assets

	Year Ended June 30	
	2004	2003
Operating revenues		
Tuition and fees, net	\$ 8,317,038	\$ 7,243,523
Grants and contracts	5,641,660	5,157,370
Auxiliary activities	911,650	1,085,530
Other operating revenues	<u>1,621,482</u>	<u>993,538</u>
Total operating revenues	<u>16,491,830</u>	<u>14,479,961</u>
Operating expenses		
Instruction	13,067,350	12,049,698
Public service	1,352,897	1,606,704
Academic support	2,979,023	2,446,882
Student services	3,819,821	3,755,595
Administration	3,504,691	3,192,262
Operation and maintenance of plant	3,550,030	3,881,326
Depreciation and amortization	2,748,231	2,491,954
Technology	<u>2,246,803</u>	<u>1,640,905</u>
Total operating expenses	<u>33,268,846</u>	<u>31,065,326</u>
Operating loss	<u>(16,777,016)</u>	<u>(16,585,365)</u>
Nonoperating and other revenues		
State appropriations	10,860,300	12,129,904
State capital appropriations	1,454,350	-
Property taxes	4,017,328	3,810,979
Other	<u>1,464,818</u>	<u>631,705</u>
Total nonoperating and other revenues	<u>17,796,796</u>	<u>16,572,588</u>
Increase (decrease) in net assets	1,019,780	(12,777)
Net assets, beginning of year	<u>30,171,391</u>	<u>30,184,168</u>
Net assets, end of year	<u>\$ 31,191,171</u>	<u>\$ 30,171,391</u>

Revenues

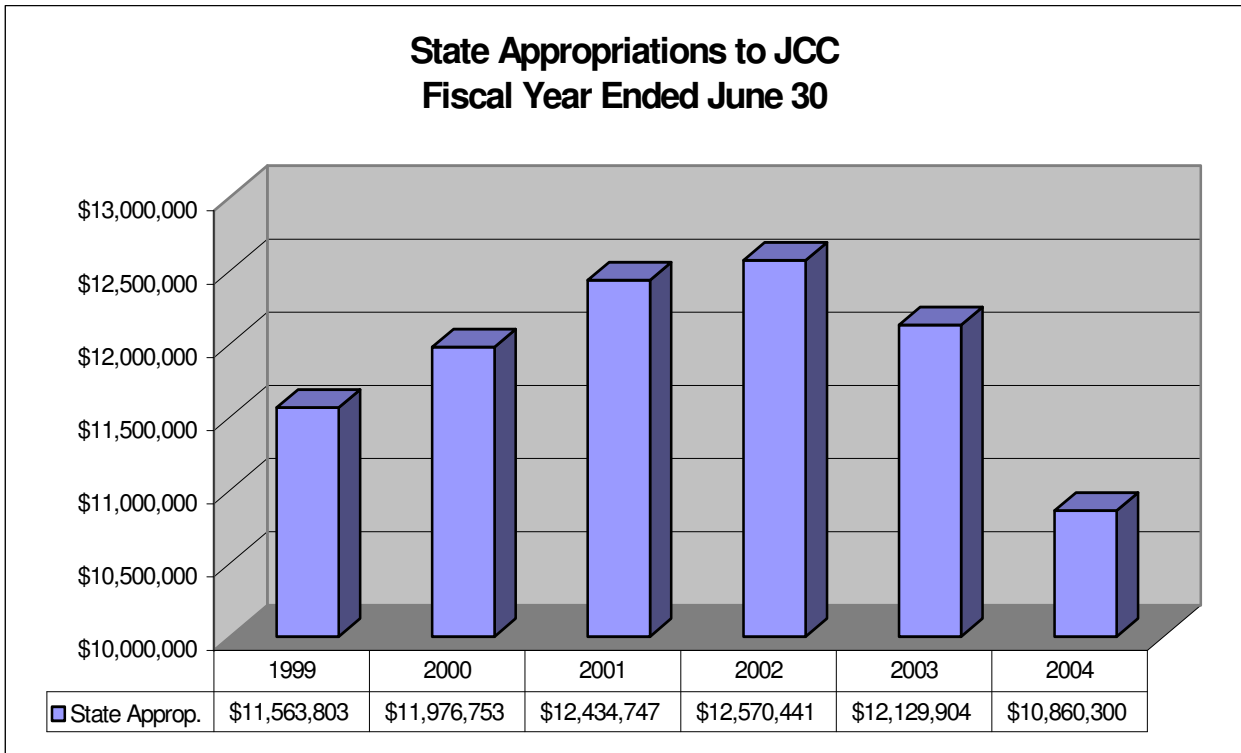
Each year the 28 Michigan public community colleges are required to submit data that is the basis of the Activities Classification Structure (ACS) Data Book. The Community College Appropriations Act assigns primary responsibility for data collection to the Michigan Department of Career Development. In addition to appropriations, the data in the ACS Data Book is used to derive comparisons among community colleges on a number of significant issues that relate to institutional concerns. The 2002-03 ACS Data Book reveals the following state averages for the year. Four years of Jackson Community College information is included for comparison.



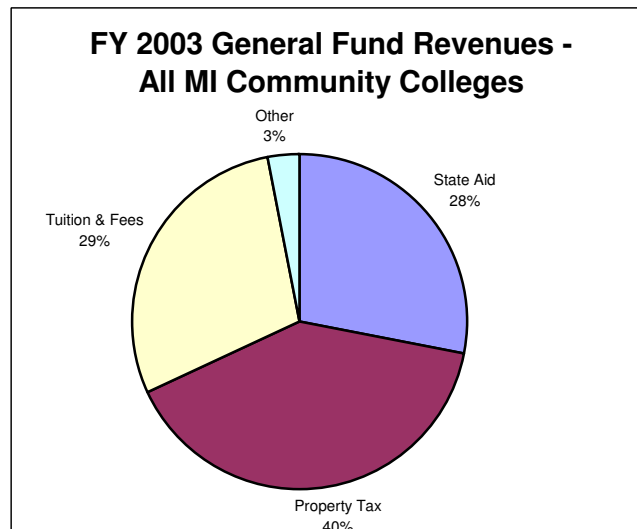
State Appropriations

Accounting guidelines issued by the GASB obligate the College to report this revenue source as nonoperating income. For the year ended June 30, 2004, this source represented 38% of General Fund revenues¹. Generally, the State of Michigan includes the Appropriation to Community Colleges Act in its annual budget, which is approved just prior to the beginning of the State's fiscal year, October 1. Due to a poor economic climate in the State, adjustments were made to the original allocation during the current fiscal year. The original act allocated \$11,312,800, a decrease of about 6.7% from the previous fiscal year. After a series of adjustments the final amount was \$10,860,300 or a 10.5% decrease.

¹ According to the latest information from the Michigan Department of Career Development, only three other state community colleges depend on state appropriations to this degree: Alpena, Bay de Noc and Gogebic Community Colleges.



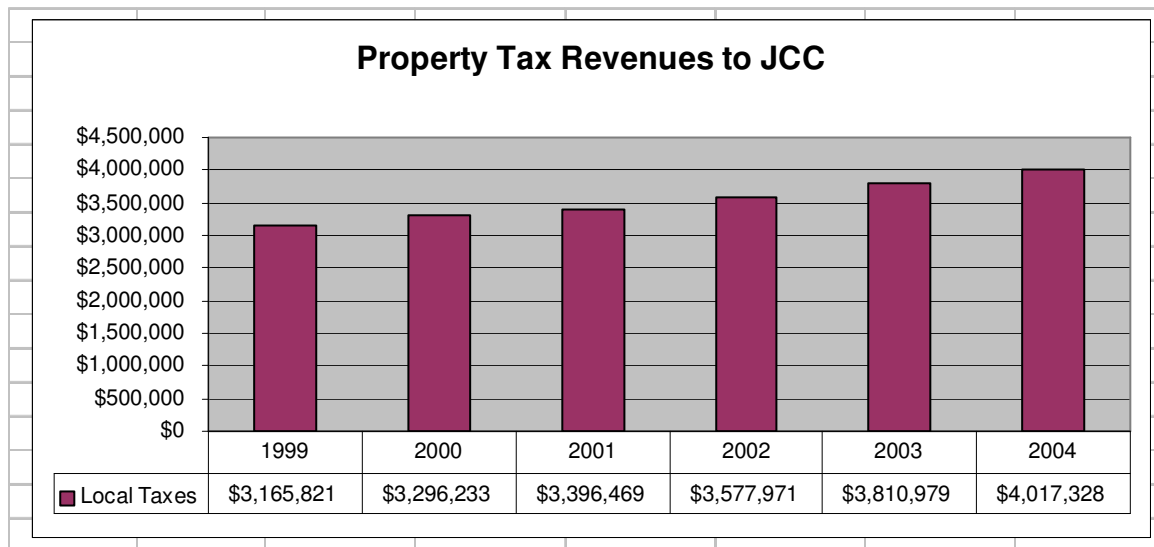
Statewide data shows that the average community college generates 28% of its general fund budget from state appropriations.



In addition, in the current fiscal year JCC received a one-time capital appropriation for the construction of its Lenawee Center building. The total of this appropriation was \$1,454,350 and is recorded as revenue in the College's Plant Funds.

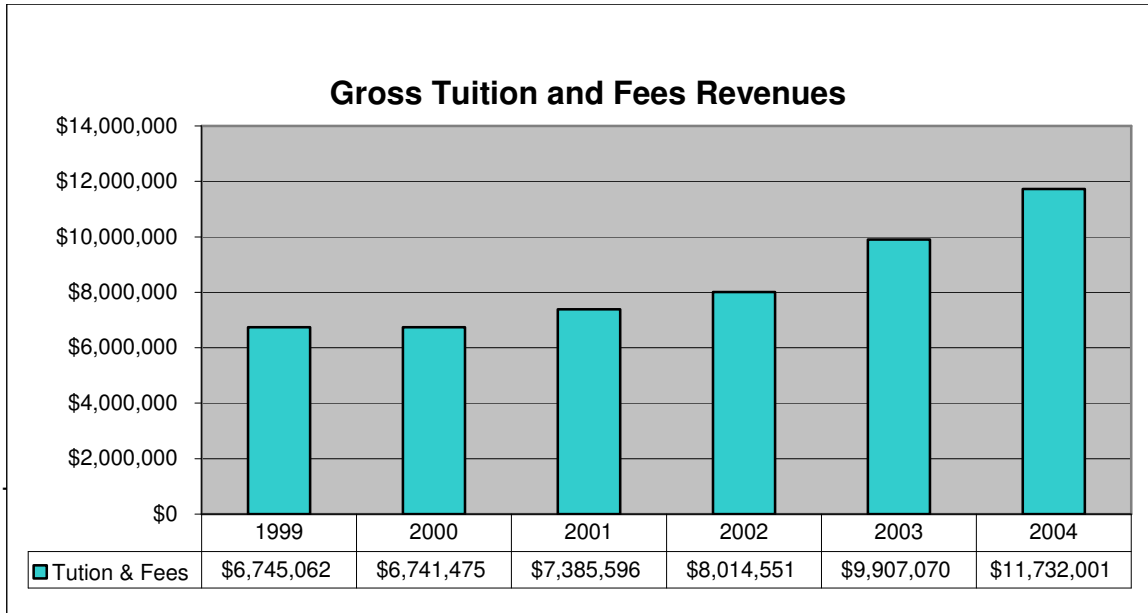
Property Taxes

Only 11.7% of our total revenue, or 14% of General Fund revenues, come from property taxes from Jackson County. The other community colleges like JCC that depend heavily on State Appropriations, also have in common a low percentage of their General Fund revenue being derived from property taxes. The State average is 40%. The College attempted to increase the millage rate twice during fiscal year ended June 30, 2004. One election was held in November 2003 and another in May 2004. Both millage attempts failed. The College's current millage rate of 1.1567 is the lowest in the State.



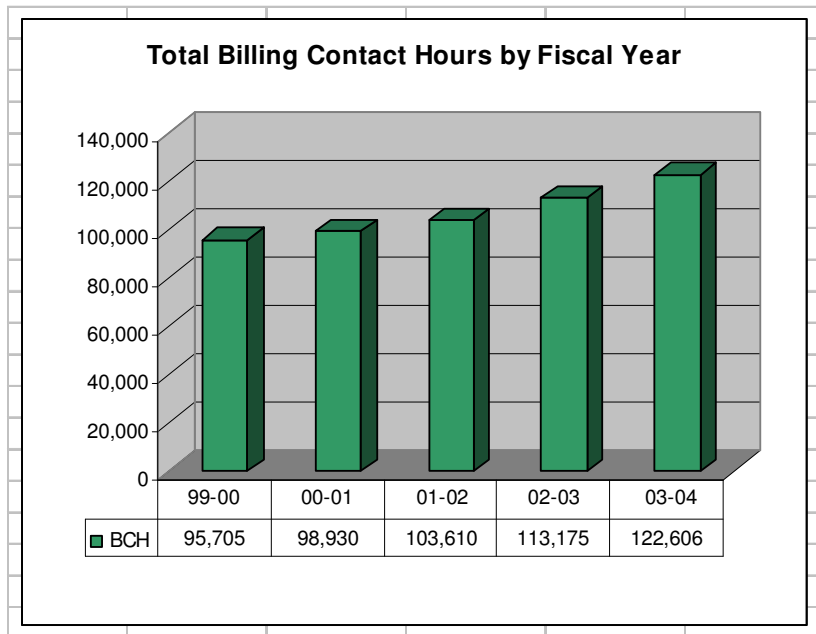
Tuition and Fees

As required by generally accepted accounting principles, the College netted \$3,414,963 and \$2,663,547 of scholarship allowances against tuition and fees representing amounts paid by grants, resulting in a "discount rate" of 29.1% and 26.9% for fiscal 2004 and 2003, respectively. For purposes of this analysis, to show trends over time, the following chart presents gross tuition and fees. The College experienced an increase of over 23% from this source of revenue in the current year as compared to fiscal 2003.



Two main factors contributed to the increase: 1) more billing contact hours were generated, and 2) a higher tuition and fee rate per billing contact hour was charged.

From fiscal year 2003 to 2004, billing contact hours increased by 8.33%, while annualized unduplicated headcount decreased by 1.16%, continuing a three-year trend. While there were fewer students, both by semester and over a total fiscal year, the students took higher course loads, thereby boosting billing contact hour totals. Additionally, the deletion of leisure-type continuing education classes has eliminated a number of individual students from the headcount, while having little or no impact on total billing hours.



**Jackson Community College
Enrollment by Semester and Fiscal Year**

	Billing hours				Headcount			
	Fall	Winter	Spring/ Summer	Fiscal Year Total	Fall	Winter	Spring/ Summer	Fiscal Year Total
Year ending 2004	52,104	51,730	18,772	122,606	6,222	6,210	3,234	9,550
% Change from PY	6.17%	9.56%	11.17%	8.33%	-1.58%	-0.10%	-1.31%	-1.16%
Year ending 2003	49,074	47,215	16,886	113,175	6,322	6,216	3,277	9,662
% Change from PY	9.65%	8.85%	9.10%	9.23%	-2.09%	-1.43%	2.02%	-7.20%
Year ending 2002	44,755	43,378	15,478	103,610	6,457	6,306	3,212	10,412
% Change from PY	-0.04%	5.71%	17.94%	4.73%	-5.30%	-0.58%	-2.36%	-1.36%
Year ending 2001	44,771	41,035	13,124	98,930	6,817	6,564	3,277	10,554

The additional increase in gross tuition and fee revenues was due to an increase in hourly tuition rates. It is unfortunate that the low property tax millage rate for the College and the decline in state appropriations has forced the administration to impose higher hourly tuition rates on our students.

	Hourly Tuition Rates		
	<u>In-district</u>	<u>Out-of-district</u>	<u>Out-of State</u>
Spring 2004	\$69.00	\$88.50	\$109.00
Winter 2004	\$69.00	\$88.50	\$109.00
Fall 2003	\$69.00	\$88.50	\$ 109.00
Spring 2003	\$64.00	\$82.00	\$ 101.00
Winter 2003	\$64.00	\$82.00	\$ 101.00
Fall 2002	\$61.00	\$79.00	\$ 98.00
Spring 2002	\$57.50	\$75.50	\$ 83.50
Winter 2002	\$57.50	\$75.50	\$ 83.50
Fall 2001	\$55.00	\$73.00	\$ 81.00

Other Operating Revenues

The signing by the College of an agreement with Jackson's W. A. Memorial Foote Hospital to establish "Foote Health University" has resulted in an increase in contract training revenue. This partnership offers comprehensive training and continuing education to Foote Health System staff. The new arrangement is expected to significantly enhance the level of ongoing training for more than 2,200 Foote employees and result in a technologically advanced workforce throughout the system. The program was designed to help Foote's staff access opportunities in many areas of professional growth. It also provides a vehicle for clinical areas to keep pace with technological changes and continuing advances in the field. Revenue generated from this program amounted to \$734,353 in the current fiscal year compared to \$22,586 in fiscal 2003.

Expenses

Compared to statewide averages, JCC spent a larger proportion of its budget on instruction. This resource use allocation is consistent with the College's strategic plan, which includes two of five strategic goals explicitly related to students and instruction. Likewise, the strategic plan and the College's overall commitment to preservation and improvement of the College's physical property is reflected in the higher proportion of expenditures for physical plant.

The expenses under public service are higher than the statewide average due to the cultural affairs program that includes the music hall events. As of December 31, 2003, the Michigan Space and Science Center was closed, thus resulting in less Auxiliary Funds revenue. This operation had been running in a deficit situation for many years. After consideration of the budget cuts made by the State and the failure to pass additional millage requests, the College decided to close the Center.

	<u>As a % of Total Operating Expenses</u>			
	<u>ACS</u>	<u>Jackson Community College</u>		
	<u>2002-03</u>	<u>2003-04</u>	<u>2002-03</u>	<u>2001-02</u>
Instructional	45.0%	50.0%	50.2%	50.1%
Public				
Service	0.7%	3.4%	4.3%	3.9%
Acad.				
Support	16.1%	10.4%	9.6%	10.9%
Std. Services	11.9%	8.3%	9.1%	8.7%
Admin.	14.1%	14.2%	13.0%	12.8%
Plant	12.2%	13.8%	13.8%	13.6%

Technology expenses are allocated for comparison purposes.

Statements of Cash Flows

Another way to assess the financial health of the College is to look at the Statements of Cash Flows. The primary purpose of these statements is to provide information about our cash receipts and cash payments during each fiscal year presented.

Major sources of cash were tuition and fees (\$8,409,904 in 2004 and \$7,061,806 in 2003), grants and contracts (\$5,542,208 in 2004 and \$5,475,063 in 2003), State appropriations (\$11,086,964 in 2004 and \$12,255,751 in 2003), and local property taxes (\$4,017,328 in 2004 and \$3,810,979 in 2003). The single, largest type of disbursement was compensation payments to our employees (\$15,638,193 in 2004 and \$15,738,201 in 2003).

Capital Assets

The components of the College's capital assets are as follows as of June 30:

	<u>2004</u>	<u>2003</u>
Land	\$ 890,312	\$ 890,312
Infrastructure and land improvements	1,118,275	1,118,275
Buildings and improvements	31,720,818	27,695,695
Equipment	8,873,505	8,649,435
Construction in progress	-	2,696,194
Total capital assets	42,602,910	41,049,911
Less accumulated depreciation	<u>25,283,940</u>	<u>23,067,025</u>
Capital assets, net	<u>\$17,318,970</u>	<u>\$17,982,886</u>

Additional information regarding the College's capital assets can be found in the notes to the financial statements.

Factors That Will Affect Our Future

Three-year contracts were signed with both faculty and support staff to extend through the fiscal year ending 2005. Overall, the increase will average about 3% per employee per year.

The State of Michigan continues to experience a reduction of tax revenues, when compared to the previous fiscal year. This economic decline is of great concern to the College as it may impact the State's overall budget and thus subject the College to additional reductions in State appropriations.

The College has abandoned its efforts to establish a downtown Jackson campus. Beginning Fall 2004, the College stopped offering classes at its Johnson Center in downtown Jackson.



REHMANN ROBSON

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INDEPENDENT AUDITORS' REPORT

September 15, 2004

Board of Trustees
Jackson Community College
Jackson, Michigan

We have audited the accompanying balance sheets of **Jackson Community College** as of June 30, 2004 and 2003, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of Jackson Community College Foundation, a blended component unit of the College as described in the second paragraph below, were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Jackson Community College** as of June 30, 2004 and 2003 and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2 to the financial statements, during fiscal 2004 the College adopted the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, which amends GASB Statement 14, *The Financial Reporting Entity*. Adoption of this pronouncement results in the College including in its financial statements, the financial statements of Jackson Community College Foundation as a blended component unit. The fiscal 2003 financial statements have been restated to reflect this change in accounting principle.

In accordance with *Government Auditing Standards*, we have also issued under separate cover our report dated September 15, 2004, on our consideration of Jackson Community College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

The Management's Discussion and Analysis ("MD&A") presented on pages 1 to 11 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive style with a large, prominent 'L' at the beginning.

JACKSON COMMUNITY COLLEGE

BALANCE SHEETS

	June 30,	
	2004	2003
ASSETS		
Current assets		
Cash and cash equivalents	\$ 7,309,684	\$ 6,953,233
Tuition and other receivables, net	598,827	621,921
State appropriations receivable	1,933,022	2,159,686
Federal and state grants receivable	410,767	292,370
Inventories	76,396	88,620
Prepaid expenses and other assets	272,501	128,607
Total current assets	10,601,197	10,244,437
Investments	10,490,089	9,068,775
Campus property, plant and equipment, net	17,318,970	17,982,886
Total assets	\$ 38,410,256	\$ 37,296,098
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 1,352,125	\$ 1,300,359
Accrued compensation and benefits	2,315,967	1,740,432
Current portion of long-term debt	395,000	442,760
Accrued interest	18,315	20,814
Deferred revenue	902,678	688,077
Total current liabilities	4,984,085	4,192,442
Long-term debt, net of current portion	2,235,000	2,932,265
Total liabilities	7,219,085	7,124,707
Net assets		
Invested in capital assets, net of related debt	14,688,970	14,607,451
Restricted:		
Nonexpendable	1,095,571	1,093,278
Expendable	1,059,224	1,030,165
Jackson Community College Foundation	8,231,895	7,404,541
Unrestricted	6,115,511	6,035,956
Total net assets	31,191,171	30,171,391
Total liabilities and net assets	\$ 38,410,256	\$ 37,296,098

The accompanying notes are an integral part of these financial statements.

JACKSON COMMUNITY COLLEGE

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	Year Ended June 30,	
	2004	2003
Operating revenues		
Tuition and fees (net of scholarship allowances of \$3,414,963 and \$2,663,547)	\$ 8,317,038	\$ 7,243,523
Federal grants and contracts	5,371,352	4,477,358
State grants and contracts	270,308	646,727
Nongovernmental grants	18,945	33,285
Potter Center activities	662,089	733,847
Auxiliary activities - Dahlem and Space Centers	249,561	351,683
Contract training	964,508	486,894
Seminars, workshops, and other	638,029	506,644
Total operating revenues	16,491,830	14,479,961
Operating expenses		
Instruction	13,067,350	12,049,698
Public service	1,352,897	1,606,704
Academic support	2,979,023	2,446,882
Student services	3,819,821	3,755,595
Administration	3,504,691	3,192,262
Operation and maintenance of plant	3,550,030	3,881,326
Depreciation and amortization	2,748,231	2,491,954
Technology	2,246,803	1,640,905
Total operating expenses	33,268,846	31,065,326
Operating loss	(16,777,016)	(16,585,365)
Nonoperating revenues (expenses)		
State appropriations	10,860,300	12,129,904
Local property taxes	4,017,328	3,810,979
Gifts	314,847	270,797
Investment income	1,144,367	423,579
Interest expense	(131,980)	(143,092)
Net nonoperating revenues	16,204,862	16,492,167
Other revenues		
State capital appropriations	1,454,350	-
Capital gifts and grants	60,000	-
Additions to permanent endowment funds	77,584	80,421
Total other revenues	1,591,934	80,421
Increase (decrease) in net assets	1,019,780	(12,777)
Net assets, beginning of year (Note 2)	30,171,391	30,184,168
Net assets, end of year	\$ 31,191,171	\$ 30,171,391

The accompanying notes are an integral part of these financial statements.

JACKSON COMMUNITY COLLEGE

STATEMENTS OF CASH FLOWS

	Year Ended June 30,	
	2004	2003
Cash flows from operating activities		
Tuition and fees	\$ 8,409,904	\$ 7,061,806
Grants and contracts	5,542,208	5,475,063
Contract training	905,412	442,192
Payments to vendors	(7,772,230)	(4,484,558)
Payments to or on behalf of employees	(20,607,533)	(20,555,499)
Payments to students	(1,645,221)	(2,840,991)
Potter Center activities	655,605	730,697
Auxiliary activities - Dahlem and Space Centers	249,561	351,683
Seminars, workshops and other	844,428	204,461
Net cash used in operating activities	(13,417,866)	(13,615,146)
Cash flows from noncapital financing activities		
State appropriations	11,086,964	12,255,751
Local property taxes	4,017,328	3,810,979
Private gifts for endowment purposes	77,584	336,586
Gifts and contributions for other than capital purposes	289,162	316,028
FFELP loan receipts	2,272,340	1,334,022
FFELP loan disbursements	(2,272,340)	(1,334,022)
State scholarship and grant receipts	786,572	983,529
State scholarship and grant disbursements	(786,572)	(983,529)
Net cash provided by noncapital financing activities	15,471,038	16,719,344
Cash flows from capital and related financing activities		
Purchases and construction of campus property, plant and equipment	(2,092,113)	(3,367,512)
Principal paid on capital debt	(745,025)	(608,755)
Interest paid on capital debt	(126,681)	(145,498)
State capital appropriations	1,454,350	-
Capital gifts and grants proceeds	60,000	-
Net cash used in capital and related financing activities	(1,449,469)	(4,121,765)
Cash flows from investing activities		
Proceeds from maturities of investments	2,789,670	1,710,942
Purchases of investments	(3,158,441)	(1,969,971)
Interest and dividends on investments	121,519	193,060
Net cash used in investing activities	(247,252)	(65,969)
Net increase (decrease) in cash and cash equivalents	356,451	(1,083,536)
Cash and cash equivalents, beginning of year	6,953,233	8,036,769
Cash and cash equivalents, end of year	\$ 7,309,684	\$ 6,953,233

The accompanying notes are an integral part of these financial statements.

JACKSON COMMUNITY COLLEGE

STATEMENTS OF CASH FLOWS (Concluded)

	Year Ended June 30,	
	2004	2003
Reconciliation of net operating loss to net cash used in operating activities		
Operating loss	\$ (16,777,016)	\$ (16,585,365)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation and amortization	2,748,231	2,491,954
Change in operating assets and liabilities which provided (used) cash:		
Tuition and other receivables, net	19,084	(283,512)
Federal and state grants receivable	(118,397)	114,155
Inventories	12,224	(15,194)
Prepaid expenses	(143,894)	129,440
Accounts payable	51,766	381,805
Accrued compensation and benefits	575,535	(23,907)
Deferred revenue	214,601	175,478
Net cash used in operating activities	\$ (13,417,866)	\$ (13,615,146)
Supplemental disclosure of non-cash financing and investing activities		
Capital assets acquired through the issuance of capital lease obligations	\$ -	\$ 250,000

The accompanying notes are an integral part of these financial statements.

JACKSON COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

1. MISSION

Jackson Community College (the "College") is a Michigan Community College whose mission is to provide quality learning opportunities for individual growth and community improvement. The College offers four associate degrees, numerous certificate programs, and other educational programs while being accredited by the North Central Association of Colleges and Secondary Schools. The primary education centers for the College are its 500-acre main campus situated six miles south of Jackson, and extension centers located in Hillsdale, Adrian (Lenawee Center), and downtown Jackson (Note 12).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The College is governed by an elected seven member board of trustees. In evaluating how to define the College for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations are Component Units*.

Based upon the application of these criteria, the Jackson Community College Foundation (the "Foundation"), described in Note 8, is included in the College's reporting entity as a blended component unit.

Separate financial statements are issued for the Foundation that are prepared in accordance with the accounting standards established by the Financial Accounting Standards Board. These financial statements may be obtained from the College's Business Office.

Basis of Presentation

The accompanying financial statements have been prepared using the economic resource measurement focus and the accrual basis of accounting, whereby revenue is recognized when earned and expenses are recognized when the related liabilities are incurred and certain measurement and matching criteria are met.

JACKSON COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

The College follows all applicable GASB pronouncements. In addition, the College applies all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The College has elected to not apply FASB pronouncements issued after November 30, 1989.

The College prepares its annual financial statements in accordance with GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, an amendment of GASB Statement No. 34, as described below, and the American Institute of Certified Public Accountants' Audit and Accounting Guide, *Audits of State and Local Governments (GASB 34 Edition)*. The financial statements also consider the provisions of the Michigan Department of Career Development's *Manual for Uniform Financial Reporting - Michigan Public Community Colleges, 2001*.

Recently Issued Accounting Standards

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*. The College adopted the provisions of these Statements for the fiscal year ended June 30, 2003.

GASB Statement No. 35 establishes financial reporting standards for public colleges and universities and supercedes GASB Statement No. 15. Under the provisions of GASB Statement No. 35, the College is permitted to report as a special purpose government engaged only in business type activities ("BTA"). Business type activities are those that are financed in whole or in part by fees charged to external users in exchange for goods and services. BTA reporting requires the College to present only the basic financial statements and required supplementary information (RSI) for an enterprise fund that includes management's discussion and analysis (MD&A), a balance sheet, a statement of revenues, expenses, and changes in net assets, a statement of cash flows, notes to the financial statements, and other applicable RSI. Fund financial information is not required for BTA reporting.

JACKSON COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

In May 2002, the GASB issued Statement No. 39, *Determining Whether Certain Organizations are Component Units*, which amends Statement No. 14, *The Financial Reporting Entity*, to provide additional guidance whether entities associated with a primary government, although for which a primary government is not financially accountable, should be reported as component units, and presented in the primary government's financial statements based on the nature and significance of the relationship. Generally, Statement No. 39 requires inclusion of an organization that raises and holds economic resources for the direct benefit of the primary governmental unit. The College adopted the provisions of this Statement for the fiscal year ended June 30, 2004. As a result, the College includes in its financial statements using a blended presentation the Jackson Community College Foundation (*see Note 8*). The adoption of this Statement also resulted in the restatement of the fiscal 2003 financial statements, which had no effect on the changes in net assets for 2003 or on the net assets of the College as of July 1, 2002.

Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Actual results may differ from estimated amounts.

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits in banks, cash on hand, money market accounts, and any certificates of deposit with an original maturity of three months or less, except that such investments purchased with endowment assets are classified as investments.

Investments

Investments are carried at fair value determined using quoted market prices.

The College endowment investment income spending policy is 100% of the realized earnings of each College endowment. The annual spending income allocation cannot reduce the original gift principal. There is no net appreciation on investments of donor-restricted College endowments included in net assets at June 30, 2004 or 2003. According to the law of the State of Michigan, the Board of Trustees may appropriate for expenditure for the uses and purposes for which an endowment is established an allocation of the net appreciation, realized and unrealized, in the fair value of the assets of an endowment over the historic dollar value as is prudent under the facts and circumstances prevailing at the time of the action or decision.

JACKSON COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

Investment gains accumulated by Foundation endowment funds may be used to support operations of the College at the discretion of the Foundation's Board of Directors.

Inventories

Inventories are stated at the lower of cost, determined by the first-in, first-out method, or market.

Campus Property, Plant and Equipment

Campus property, plant and equipment, consisting of institutional physical properties used in College operations, are recorded at cost or, if acquired by gift, at fair market value at the date of acquisition. Building additions and improvements with a cost in excess of \$30,000 are capitalized if the life of the building is extended or square footage is added. Equipment with a cost in excess of \$1,000 with a useful life of more than one year is capitalized. Expenses for routine maintenance and ordinary repairs are expensed as incurred. Library books are expensed the year of purchase. Certain maintenance and replacement reserves have been established to provide for significant repair and maintenance costs to facilities.

Depreciation is provided for campus property, plant and equipment on a straight-line basis over the estimated useful life of the assets as follows:

<u>Classification</u>	<u>Estimated Useful Lives</u>
Buildings	40
Infrastructure and land improvements	15
Building improvements	10
Furniture and fixtures	5
Computer equipment	3

Revenue Recognition

Revenue from state appropriations are recognized in accordance with the accounting method described in the *Manual for Uniform Financial Reporting -- Michigan Public Community Colleges, 2001*, which provides that state appropriations are recorded as revenue in the period for which such amounts are appropriated. Student tuition and related revenues and expenses of an academic semester are reported in the fiscal year in which the program is conducted. Property taxes are recorded as revenue when received, which approximates the amounts when levied.

JACKSON COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

Operating revenues of the College consist of tuition and fees, grants and contracts, sales and services of educational activities and auxiliary enterprise revenues. Transactions related to capital and financing activities, noncapital financing activities, investing activities, State appropriations, and property taxes are components of nonoperating and other revenues. For financial reporting purposes, restricted resources are deemed to be utilized first when both restricted and unrestricted resources are available to satisfy an expense.

Sabbatical Leaves

In accordance with the Master Agreement with the Faculty Association, the College grants sabbatical leaves to various full-time instructors. The leaves are granted to enhance the personal and professional competence of the instructors who are required to return to the College for a period of two years. Compensation is accounted for as an expense in the fiscal year the leave is taken.

Other Compensated Absences

Other compensated absences represent the accumulated liability to be paid under the College's current vacation and terminated leave pay policies. As the amounts are due on demand at the time of employee termination, the liability is classified as current (accrued payroll, vacation and other compensation) in the accompanying balance sheets.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

3. DEPOSITS AND INVESTMENTS

State of Michigan statutes authorize the College to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, or National Credit Union Administration, respectively; and in commercial paper of corporations located in this state rated prime by at least one of the standard rating services. The College is also authorized to invest in U.S. government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds comprised of investments as outlined above. The Foundation invests donations primarily in debt and equity securities.

JACKSON COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

The College's deposits and investments are included on the balance sheets under the following classifications as of June 30:

	<u>College</u>	<u>Foundation</u>	<u>Total</u>
<u>2004</u>			
Cash and cash equivalents	\$ 7,267,871	\$ 41,813	\$ 7,309,684
Investments	<u>1,555,317</u>	<u>8,934,772</u>	<u>10,490,089</u>
	<u>\$ 8,823,188</u>	<u>\$ 8,976,585</u>	<u>\$17,799,773</u>
<u>2003</u>			
Cash and cash equivalents	\$ 6,763,935	\$ 189,298	\$ 6,953,233
Investments	<u>1,125,783</u>	<u>7,942,992</u>	<u>9,068,775</u>
	<u>\$ 7,889,718</u>	<u>\$ 8,132,290</u>	<u>\$16,022,008</u>

The above amounts are categorized as follows at June 30:

	<u>College</u>	<u>Foundation</u>	<u>Total</u>
<u>2004</u>			
Bank deposits (checking and savings, money market, and cash sweep accounts, and certificates of deposit)	\$ 7,266,084	\$ 41,813	\$ 7,307,897
Petty cash	<u>1,787</u>	<u>-</u>	<u>1,787</u>
	7,267,871	41,813	7,309,684
Investments in government obligations	957,140	626,005	1,583,145
Investments in equity securities	9,757	6,667,785	6,677,542
Investments in short-term funds	-	657,415	657,415
Investments in fixed income securities	588,420	718,708	1,307,128
Investments in trusts and life insurance	<u>-</u>	<u>264,859</u>	<u>264,859</u>
Total	<u>\$ 8,823,188</u>	<u>\$8,976,585</u>	<u>\$ 17,799,773</u>

JACKSON COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

	<u>College</u>	<u>Foundation</u>	<u>Total</u>
<u>2003</u>			
Bank deposits (checking and savings, money market, and cash sweep accounts, and certificates of deposit)	\$ 6,761,560	\$ 189,298	\$ 6,950,858
Petty cash	<u>2,375</u>	<u>-</u>	<u>2,375</u>
	6,763,935	189,298	6,953,233
Investments in government obligations	1,116,800	1,122,097	2,238,897
Investments in equity securities	8,983	5,142,584	5,151,567
Investments in short-term funds	-	1,112,967	1,112,967
Investments in fixed income securities	-	311,919	311,919
Investments in trusts and life insurance	<u>-</u>	<u>253,425</u>	<u>253,425</u>
Total	<u>\$ 7,889,718</u>	<u>\$8,132,290</u>	<u>\$ 16,022,008</u>

The above bank deposits at June 30, 2004, were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) in the amount of \$7,999,399. Of that amount, \$241,157 was covered by federal depository insurance, \$1,075,507 was collateralized with securities held by the pledging bank's trust department in the College's name, and \$6,682,735 was uninsured and uncollateralized.

The above bank deposits at June 30, 2003, were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) in the amount of \$7,381,248. Of that amount, \$325,660 was covered by federal depository insurance, \$3,402,214 was collateralized with securities held by the pledging bank's trust department in the College's name, and \$3,653,374 was uninsured and uncollateralized.

The College's investments are categorized below to convey an indication of the level of risk assumed by the College at June 30, 2004 and 2003. Classification by risk category is determined as either (1) insured or registered for which the securities are held by the College or its agent in the College's name, (2) uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the College's name, and (3) uninsured and unregistered for which the securities are held by the counterparty or by its trust department or agent, but not in the College's name.

JACKSON COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

	June 30, 2004				June 30, 2003			
	Category			Uncategorized	Category			Uncategorized
	1	2	3		1	2	3	
United States Government obligations	\$ 1,583,145	\$ -	\$ -	\$ -	\$ 2,238,897	\$ -	\$ -	\$ -
Equity and debt securities	7,396,250	-	-	-	5,463,486	-	-	-
Certificates of deposit	588,420	-	-	-	-	-	-	-
Money market funds	-	-	-	657,415	-	-	-	1,112,967
Other investments	-	-	-	264,859	-	-	-	253,425
Total	<u>\$ 9,567,815</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 922,274</u>	<u>\$ 7,702,383</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,366,392</u>

4. TUITION AND OTHER RECEIVABLES

Tuition and other receivables result from various revenue sources including student tuition and fee billings, auxiliary enterprise sales and contract training revenues.

Tuition and other receivables consist of the following amounts at June 30:

	<u>2004</u>	<u>2003</u>
Tuition and fees.....	\$ 395,564	\$ 252,949
Private grants and contracts	145,156	87,644
Reimbursement of costs	52,278	205,942
Bookstore sales	34,322	83,228
Employees.....	13,757	610
Other	<u>7,750</u>	<u>21,548</u>
Total	648,827	651,921
Less allowance for doubtful collection of accounts	<u>50,000</u>	<u>30,000</u>
Net book value	<u>\$ 598,827</u>	<u>\$ 621,921</u>

JACKSON COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

5. CAMPUS PROPERTY, PLANT AND EQUIPMENT, NET

The following table presents in summary fashion the changes in the components of campus property, plant and equipment for the years ended June 30:

<u>2004</u>	<u>Balance,</u> <u>July 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Balance,</u> <u>June 30, 2004</u>
Land	\$ 890,312	\$ -	\$ -	\$ -	\$ 890,312
Infrastructure and land improvements	1,118,275	-	-	-	1,118,275
Buildings and improvements	27,695,695	-	-	4,025,123	31,720,818
Furniture, fixtures and equipment	8,649,435	763,184	539,114	-	8,873,505
Construction in progress	<u>2,696,194</u>	<u>1,328,929</u>	<u>-</u>	<u>(4,025,123)</u>	<u>-</u>
Total campus property, plant and equipment	41,049,911	2,092,113	539,114	-	42,602,910
Less accumulated depreciation	<u>23,067,025</u>	<u>2,748,231</u>	<u>531,316</u>	<u>-</u>	<u>25,283,940</u>
Campus property, plant and equipment, net	<u>\$ 17,982,886</u>	<u>\$ (656,118)</u>	<u>\$ 7,798</u>	<u>\$ -</u>	<u>\$ 17,318,970</u>

Included in the net book value of campus property, plant and equipment is approximately \$353,000 in assets held for sale at June 30, 2004 relating to facilities located in downtown Jackson.

JACKSON COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

<u>2003</u>	<u>Balance, July 1, 2002</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance, June 30, 2003</u>
Land	\$ 870,312	\$ 20,000	\$ -	\$ 890,312
Infrastructure and land improvements	818,275	300,000	-	1,118,275
Buildings and improvements	27,572,087	123,608	-	27,695,695
Furniture, fixtures and equipment	8,670,802	743,253	764,620	8,649,435
Construction in progress	<u>265,543</u>	<u>2,430,651</u>	<u>-</u>	<u>2,696,194</u>
Total campus property, plant and equipment	38,197,019	3,617,512	764,620	41,049,911
Less accumulated depreciation	<u>21,339,691</u>	<u>2,491,954</u>	<u>764,620</u>	<u>23,067,025</u>
Campus property, plant and equipment, net	<u>\$ 16,857,328</u>	<u>\$1,125,558</u>	<u>\$ -</u>	<u>\$ 17,982,886</u>

6. LONG-TERM DEBT

Long-term debt consists of the following obligations as of June 30:

<u>2004</u>	<u>Outstanding Principal</u>				
	<u>Balance July 1, 2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2004</u>	<u>Current Portion</u>
General Bonds, Series 1998	\$ 1,155,000	\$ -	\$ 205,000	\$ 950,000	\$ 220,000
General Bonds, Series 2001	1,845,000	-	165,000	1,680,000	175,000
Notes payable to Cessna Finance Corporation	125,025	-	125,025	-	-
Capital lease obligation	<u>250,000</u>	<u>-</u>	<u>250,000</u>	<u>-</u>	<u>-</u>
Total long-term debt	<u>\$ 3,375,025</u>	<u>\$ -</u>	<u>\$ 745,025</u>	2,630,000	<u>\$ 395,000</u>
Less current portion				<u>395,000</u>	
Long-term debt, net of current portion				<u>\$ 2,235,000</u>	

JACKSON COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

<u>2003</u>	<u>Outstanding Principal</u>			<u>Balance June 30, 2003</u>	<u>Current Portion</u>
	<u>Balance July 1, 2002</u>	<u>Additions</u>	<u>Reductions</u>		
General Bonds, Series 1998	\$ 1,350,000	\$ -	\$ 195,000	\$ 1,155,000	\$ 205,000
General Bonds, Series 2001	2,000,000	-	155,000	1,845,000	165,000
Notes payable to Cessna Finance Corporation	383,780	-	258,755	125,025	47,760
Capital lease obligation	-	250,000	-	250,000	25,000
Total long-term debt	<u>\$ 3,733,780</u>	<u>\$ 250,000</u>	<u>\$ 608,755</u>	3,375,025	<u>\$ 442,760</u>
Less current portion				442,760	
Long-term debt, net of current portion				<u>\$ 2,932,265</u>	

Bonded Debt

\$2,000,000 General Bonds, Series 1998

Unsecured bonds mature serially in annual amounts ranging from \$165,000 to \$225,000 through May 2008, with interest charged at rates ranging from 4.125% to 4.2% per annum.

\$2,000,000 General Bonds, Series 2001

Unsecured bonds mature serially in annual amounts ranging from \$155,000 to \$245,000 through May 2012, with interest charged at rates ranging from 3.65% to 4.55% per annum.

All borrowed debt is to be paid out of operating funds.

JACKSON COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

Scheduled principal and interest requirements of long-term debt for years succeeding June 30, 2004, are summarized below:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005.....	\$ 395,000	\$ 110,005	\$ 505,005
2006.....	415,000	93,765	508,765
2007.....	435,000	77,323	512,323
2008.....	455,000	59,575	514,575
2009.....	215,000	39,060	254,060
2010-2012	<u>715,000</u>	<u>66,380</u>	<u>781,380</u>
Totals.....	<u>\$ 2,630,000</u>	<u>\$ 446,108</u>	<u>\$ 3,076,108</u>

During fiscal 2004, the College entered into a lease agreement with the State of Michigan as part of the Capital Outlay program offered by the State Building Authority. The State appropriated approximately \$1,500,000 toward the construction of the College's new Lenawee Center. The appropriation was funded by the issuance of bonds by the State Building Authority. In return, the College has deeded the building to the State Building Authority as collateral for the bondholders. The College and the State of Michigan are leasing the building from the State Building Authority for the period that the bonds for the building are being repaid by the State Building Authority. These lease payments are made out of the State of Michigan general operating budget. The College includes the building as part of its total investment in physical plant as a capital lease as the College will obtain title to the building at the end of the lease. No corresponding obligation has been recorded since there are no payments due by the College under this lease agreement.

7. PENSION PLANS

Defined Benefit Plan

Plan Description

Jackson Community College contributes to the Michigan Public School Employees Retirement System (MPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. Substantially all College employees are eligible to participate in the MPERS, which provides retirement, survivor and disability benefits, and death benefits to plan members and beneficiaries. State of Michigan statute assigns the authority to establish and amend benefit provisions to the State legislature. The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30171, Lansing, Michigan, 48909 or by calling 1-800-381-5111.

JACKSON COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

Funding Policy

Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 or later contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Basic Plan members make no contributions. The College is required to contribute at an actuarially determined rate. The current rate is 12.99% of annual covered payroll (which includes 6.05% for retiree health care). The contribution requirements of plan members and the College are established by Michigan State statute and may be amended only by action of the State Legislature. The College's contributions to MPERS for the years ended June 30, 2004, 2003 and 2002 were approximately \$1,515,000, \$1,460,000, and \$1,327,000, respectively, which were equal to the required contributions for each year.

Other Postemployment Benefits

Under the MPERS' Act, all retirees have the option of continuing health, dental and vision coverage, which are funded on a cash disbursement basis. Retirees having these coverages contribute an amount approximately equivalent to the monthly cost for Part B Medicare and 10% of the monthly premium amount for the health, dental and vision coverages.

Defined Contribution Plan

Effective July 1, 1996, the College established the Jackson Community College Optional Retirement Program ("JCCORP"), a defined contribution pension plan qualified under Section 414(d) of the Internal Revenue Code. Under this plan, eligible employees as of July 1, 1996 and who are members of MPERS, may continue their membership in MPERS or may elect to participate in the plan and retain limited membership in the retirement system. An employee becoming eligible after July 1, 1996 may elect to become a member of MPERS or to participate in JCCORP. Benefit provisions and contribution requirements are established and may be amended by the College.

Required contributions are made by the College and the participants at a rate of 14% and 4% of eligible compensation, respectively. For the years ended June 30, 2004, and 2003 the cost of this plan to the College was approximately \$468,000 and \$533,000 and participant contributions in the form of payroll deductions were approximately \$138,000 and \$137,000, respectively.

JACKSON COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

8. JACKSON COMMUNITY COLLEGE FOUNDATION

The Jackson Community College Foundation (the "Foundation") a separate, legal nonprofit corporation formed for the purpose of receiving private funds for the sole benefit of the College. The net assets and financial activities of the Foundation are included in the financial statements of the College as a blended component unit.

The net assets of the Foundation consist of the following amounts as of June 30:

	<u>2004</u>	<u>2003</u>
Unrestricted	\$ 2,522,166	\$ 2,178,707
Temporarily restricted	1,430,507	1,035,630
Permanently restricted	<u>4,279,222</u>	<u>4,190,204</u>
Total	<u>\$ 8,231,895</u>	<u>\$ 7,404,541</u>

The College provides personnel support, facilities and equipment to the Foundation.

9. UNRESTRICTED NET ASSETS

The College, through Board of Trustees action via the budget process, has designated the use of unrestricted net assets for the following purposes at June 30:

	<u>2004</u>	<u>2003</u>
Major maintenance	\$ 2,145,878	\$ 3,089,690
Equipment replacement	972,085	1,200,539
Future capital outlay	534,329	595,558
Future operations	1,715,120	383,482
Auxiliary activities	36,039	38,130
Student loans	<u>36,928</u>	<u>35,385</u>
Total unrestricted and designated	5,440,379	5,342,784
Unrestricted and undesignated	<u>675,132</u>	<u>693,172</u>
Total unrestricted net assets	<u>\$ 6,155,511</u>	<u>\$ 6,035,956</u>

JACKSON COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

10. NATURAL CLASSIFICATION OF EXPENSES

Operating expenses, by natural classification, are summarized as follows for the years ended June 30:

	<u>2004</u>	<u>2003</u>
Wages and benefits	\$ 21,183,068	\$ 20,531,592
Depreciation and amortization	2,748,231	2,491,954
Scholarships	2,018,893	1,601,628
Supplies	1,964,645	975,086
Contracted services	1,356,602	1,099,736
Utilities	747,827	823,637
Rent and insurance	636,551	274,705
Repairs and maintenance	461,628	614,006
Licensing	108,070	151,770
Other	<u>2,043,331</u>	<u>2,501,212</u>
Total operating expenses	<u>\$ 33,268,846</u>	<u>\$ 31,065,326</u>

11. RISK MANAGEMENT

The College is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the years ended June 30, 2004 and 2003, the College carried commercial insurance to cover all risks of losses. The College has had no settled claims resulting from these risks that exceeded its commercial coverage limits in any of the past three fiscal years.

12. COMMITMENTS, UNCERTAINTIES AND OTHER MATTERS

Capital Projects

In July, 2004, the College entered into a contract for the purchase and installation of new boiler systems for both McDivitt and Walker Halls. Both systems are well past their useful lives and would require major repairs if they were to continue in operation. The total estimated cost of the project, including equipment installation, is \$600,000, funded by general operations. The completion date is scheduled for October 31, 2004.

JACKSON COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

Government Programs

The College conducts certain programs pursuant to grants and contracts funded, and subject to audit, by various federal and state agencies. Amounts questioned as a result of audits, if any, may result in refunds to these governmental agencies. Any liabilities for reimbursements which may arise as the result of these audits is not believed to be material.

Employment Contract

The College is obligated pursuant to the terms of the College President's employment contract to provide housing in which the President is required to reside, reimburse certain expenses, and establish a deferred compensation plan on the President's behalf. The employment agreement states that the College will maintain the buildings and grounds and pay all utilities furnished for the President's residential housing, annually reimburse certain expenses connected with the Office of the President and annually provide an agreed upon amount of deferred compensation payable upon termination of the President's tenure. The President's employment agreement is currently scheduled to expire on June 30, 2007.

Auxiliary Activities

Faced with an increasing deficit in the Michigan Space and Science Center operations, the College elected to close the Center during fiscal year 2004. Since most artifacts in the Center were not property of the College, negotiations with government agencies took place and the College was able to transfer the artifacts to the Kalamazoo Air Museum at no cost to the College. The College wrote off an insignificant amount of gift shop inventory in fiscal 2004 as a result of the closure.

Downtown Jackson Campus

Beginning with the Fall 2004 semester, the College stopped offering classes at its Johnson Center in downtown Jackson.

Other Matters

The College may be subject to various legal proceedings and claims which arise in the ordinary course of its business. The College believes that the amount, if any, of ultimate liability with respect to legal actions will be immaterial.

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REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



an independent member of

BAKER TILLY
INTERNATIONAL

INDEPENDENT AUDITORS' REPORT ON
SUPPLEMENTARY INFORMATION

September 15, 2004

Board of Trustees
Jackson Community College
Jackson, Michigan

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information presented hereinafter is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in our audits of the 2004 and 2003 basic financial statements and, accordingly, we express no opinion on it.

Rehmann Robson

SUPPLEMENTARY INFORMATION

JACKSON COMMUNITY COLLEGE
COMBINING BALANCE SHEET
JUNE 30, 2004

	General Fund	Auxiliary Activity Funds	Designated Fund	Restricted Funds	Student Loan Funds	Endowment Funds	Plant Funds	College Total	Foundation	GASB 39 Elimination Entries	Combined Total
ASSETS											
Current assets											
Cash and cash equivalents	\$ 2,060,727	\$ 7,582	\$ 1,664,632	\$ 756,203	\$ 52,862	\$ 202,849	\$ 2,523,016	\$ 7,267,871	\$ 41,813	\$ -	\$ 7,309,684
Tuition and other receivables, net	582,121	28,311	185	8,742	1,199	-	-	620,558	6,000	(27,731)	598,827
State appropriations receivable	1,933,022	-	-	-	-	-	-	1,933,022	-	-	1,933,022
Federal and state grants receivable	29,556	-	-	381,211	-	-	-	410,767	-	-	410,767
Inventories	55,008	21,388	-	-	-	-	-	76,396	-	-	76,396
Prepaid expenses	272,026	-	-	475	-	-	-	272,501	-	-	272,501
Advances to Jackson Community College Foundation	-	-	-	-	-	471,178	243,491	714,669	-	(714,669)	-
Total current assets	4,932,460	57,281	1,664,817	1,146,631	54,061	674,027	2,766,507	11,295,784	47,813	(742,400)	10,601,197
Investments	-	-	55,488	-	-	421,544	1,078,285	1,555,317	8,934,772	-	10,490,089
Campus property, plant and equipment, net	-	-	-	-	-	-	17,318,970	17,318,970	-	-	17,318,970
Total assets	\$ 4,932,460	\$ 57,281	\$ 1,720,305	\$ 1,146,631	\$ 54,061	\$ 1,095,571	\$ 21,163,762	\$ 30,170,071	\$ 8,982,585	\$ (742,400)	\$ 38,410,256
LIABILITIES AND NET ASSETS											
Current liabilities											
Accounts payable	\$ 1,092,663	\$ 19,953	\$ 5,185	\$ 81,589	\$ -	\$ -	\$ 144,445	\$ 1,343,835	\$ 36,021	\$ (27,731)	\$ 1,352,125
Accrued compensation and benefits	2,243,672	1,289	-	71,006	-	-	-	2,315,967	-	-	2,315,967
Current portion of long-term debt	-	-	-	-	-	-	395,000	395,000	-	-	395,000
Accrued interest	-	-	-	-	-	-	18,315	18,315	-	-	18,315
Deferred revenue	902,678	-	-	-	-	-	-	902,678	-	-	902,678
Funds advanced from Jackson Community College	-	-	-	-	-	-	-	-	714,669	(714,669)	-
Total current liabilities	4,239,013	21,242	5,185	152,595	-	-	557,760	4,975,795	750,690	(742,400)	4,984,085
Long-term debt, net of current portion	-	-	-	-	-	-	2,235,000	2,235,000	-	-	2,235,000
Total liabilities	4,239,013	21,242	5,185	152,595	-	-	2,792,760	7,210,795	750,690	(742,400)	7,219,085
Net assets											
Invested in capital assets, net of related debt	-	-	-	-	-	-	14,688,970	14,688,970	-	-	14,688,970
Restricted:											
Nonexpendable	-	-	-	-	-	1,095,571	-	1,095,571	-	-	1,095,571
Expendable	-	-	-	994,036	17,133	-	48,055	1,059,224	-	-	1,059,224
Jackson Community College Foundation	-	-	-	-	-	-	-	-	8,231,895	-	8,231,895
Unrestricted	693,447	36,039	1,715,120	-	36,928	-	3,633,977	6,115,511	-	-	6,115,511
Total net assets	693,447	36,039	1,715,120	994,036	54,061	1,095,571	18,371,002	22,959,276	8,231,895	-	31,191,171
Total liabilities and net assets	\$ 4,932,460	\$ 57,281	\$ 1,720,305	\$ 1,146,631	\$ 54,061	\$ 1,095,571	\$ 21,163,762	\$ 30,170,071	\$ 8,982,585	\$ (742,400)	\$ 38,410,256

See independent auditors' report on supplementary information.

JACKSON COMMUNITY COLLEGE
COMBINING STATEMENT OF REVENUES, EXPENSES, TRANSFERS AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2004

	General Fund	Auxiliary Activity Funds	Designated Fund	Restricted Funds	Student Loan Funds	Endowment Funds	Plant Funds	GASB 35 Elimination Entries	College Total	Foundation	GASB 39 Elimination Entries	Combined Total
Operating revenues												
Tuition and fees (net of scholarship allowance of \$3,414,963)	\$ 11,732,001	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (3,414,963)	\$ 8,317,038	\$ -	\$ -	\$ 8,317,038
Federal grants and contracts	20,979	-	-	5,350,373	-	-	-	-	5,371,352	-	-	5,371,352
State grants and contracts	-	-	-	270,308	-	-	-	-	270,308	-	-	270,308
Nongovernmental grants	18,945	-	-	-	-	-	-	-	18,945	-	-	18,945
Potter Center activities	662,089	-	-	-	-	-	-	-	662,089	-	-	662,089
Auxiliary activities - Dahlem and Space Centers	-	249,561	-	-	-	-	-	-	249,561	-	-	249,561
Contract training	964,508	-	-	-	-	-	-	-	964,508	-	-	964,508
Seminars, workshops and other	404,591	-	104,279	503,709	-	-	9,012	-	1,021,591	-	(383,562)	638,029
Current funds expenditures for capital equipment and improvements	-	-	-	-	-	-	2,092,113	(2,092,113)	-	-	-	-
Total operating revenues	13,803,113	249,561	104,279	6,124,390	-	-	2,101,125	(5,507,076)	16,875,392	-	(383,562)	16,491,830
Operating expenses												
Instruction	13,042,605	-	-	24,745	-	-	-	-	13,067,350	-	-	13,067,350
Public service	927,363	363,379	-	62,155	-	-	-	-	1,352,897	-	-	1,352,897
Academic support	2,273,076	-	16,594	689,353	-	-	-	-	2,979,023	-	-	2,979,023
Student services	1,717,590	-	53,036	5,462,252	1,906	-	-	(3,414,963)	3,819,821	-	-	3,819,821
Administration	3,317,809	-	-	(4,345)	-	-	-	-	3,313,464	574,789	(383,562)	3,504,691
Operation and maintenance of plant	3,660,170	-	-	37,339	-	-	1,944,634	(2,092,113)	3,550,030	-	-	3,550,030
Depreciation and amortization	-	-	-	-	-	-	2,747,821	-	2,747,821	410	-	2,748,231
Technology	2,246,803	-	-	-	-	-	-	-	2,246,803	-	-	2,246,803
Total operating expenses	27,185,416	363,379	69,630	6,271,499	1,906	-	4,692,455	(5,507,076)	33,077,209	575,199	(383,562)	33,268,846
Operating (loss) income	(13,382,303)	(113,818)	34,649	(147,109)	(1,906)	-	(2,591,330)	-	(16,201,817)	(575,199)	-	(16,777,016)
Nonoperating revenues (expenses)												
State appropriations	10,860,300	-	-	-	-	-	-	-	10,860,300	-	-	10,860,300
Local property taxes	4,017,328	-	-	-	-	-	-	-	4,017,328	-	-	4,017,328
Gifts	-	-	100	66,213	7,973	-	-	-	74,286	240,561	-	314,847
Investment income	21,788	-	4,150	3,081	1,543	17,137	12,260	-	59,959	1,084,408	-	1,144,367
Interest expense	-	-	-	-	-	-	(131,980)	-	(131,980)	-	-	(131,980)
Net nonoperating revenues (expenses)	14,899,416	-	4,250	69,294	9,516	17,137	(119,720)	-	14,879,893	1,324,969	-	16,204,862
Other revenues												
State capital appropriations	-	-	-	-	-	-	1,454,350	-	1,454,350	-	-	1,454,350
Capital gifts and grants	-	-	-	-	-	-	60,000	-	60,000	-	-	60,000
Additions to permanent endowment funds	-	-	-	-	-	-	-	-	-	77,584	-	77,584
Total other revenues	-	-	-	-	-	-	1,514,350	-	1,514,350	77,584	-	1,591,934
Increase (decrease) in net assets	1,517,113	(113,818)	38,899	(77,815)	7,610	17,137	(1,196,700)	-	192,426	827,354	-	1,019,780
Transfers in (out)	(1,516,838)	111,727	1,292,739	52,752	-	(14,463)	74,083	-	-	-	-	-
Net increase (decrease) in net assets	275	(2,091)	1,331,638	(25,063)	7,610	2,674	(1,122,617)	-	192,426	827,354	-	1,019,780
Net assets, beginning of year	693,172	38,130	383,482	1,019,099	46,451	1,092,897	19,493,619	-	22,766,850	7,404,541	-	30,171,391
Net assets, end of year	\$ 693,447	\$ 36,039	\$ 1,715,120	\$ 994,036	\$ 54,061	\$ 1,095,571	\$ 18,371,002	\$ -	\$ 22,959,276	\$ 8,231,895	\$ -	\$ 31,191,171

See independent auditors' report on supplementary information.

JACKSON COMMUNITY COLLEGE
COMBINING BALANCE SHEET
JUNE 30, 2003

	General Fund	Auxiliary Activity Funds	Designated Fund	Restricted Funds	Student Loan Funds	Endowment Funds	Plant Funds	College Total	Foundation	GASB 39 Elimination Entries	Combined Total
ASSETS											
Current assets											
Cash and cash equivalents	\$ 806,101	\$ 8,621	\$ 386,755	\$ 795,779	\$ 45,182	\$ 67,306	\$ 4,654,191	\$ 6,763,935	\$ 189,298	\$ -	\$ 6,953,233
Tuition and other receivables, net	428,200	-	-	-	1,269	-	205,942	635,411	10,010	(23,500)	621,921
State appropriations receivable	2,159,686	-	-	-	-	-	-	2,159,686	-	-	2,159,686
Federal and state grants receivable	2,897	-	-	289,473	-	-	-	292,370	-	-	292,370
Inventories	55,008	33,612	-	-	-	-	-	88,620	-	-	88,620
Prepaid expenses	105,107	6,000	-	17,500	-	-	-	128,607	-	-	128,607
Advances to Jackson Community College Foundation	-	-	-	-	-	471,178	243,491	714,669	-	(714,669)	-
Total current assets	3,556,999	48,233	386,755	1,102,752	46,451	538,484	5,103,624	10,783,298	199,308	(738,169)	10,244,437
Investments	8,937	-	-	-	-	554,413	562,433	1,125,783	7,942,992	-	9,068,775
Campus property, plant and equipment, net	-	-	-	-	-	-	17,982,476	17,982,476	410	-	17,982,886
Total assets	\$ 3,565,936	\$ 48,233	\$ 386,755	\$ 1,102,752	\$ 46,451	\$ 1,092,897	\$ 23,648,533	\$ 29,891,557	\$ 8,142,710	\$ (738,169)	\$ 37,296,098
LIABILITIES AND NET ASSETS											
Current liabilities											
Accounts payable	\$ 450,651	\$ 3,707	\$ 3,273	\$ 83,653	\$ -	\$ -	\$ 759,075	\$ 1,300,359	\$ 23,500	\$ (23,500)	\$ 1,300,359
Accrued compensation and benefits	1,734,036	6,396	-	-	-	-	-	1,740,432	-	-	1,740,432
Current portion of long-term debt	-	-	-	-	-	-	442,760	442,760	-	-	442,760
Accrued interest	-	-	-	-	-	-	20,814	20,814	-	-	20,814
Deferred revenue	688,077	-	-	-	-	-	-	688,077	-	-	688,077
Funds advanced from Jackson Community College	-	-	-	-	-	-	-	-	714,669	(714,669)	-
Total current liabilities	2,872,764	10,103	3,273	83,653	-	-	1,222,649	4,192,442	738,169	(738,169)	4,192,442
Long-term debt, net of current portion	-	-	-	-	-	-	2,932,265	2,932,265	-	-	2,932,265
Total liabilities	2,872,764	10,103	3,273	83,653	-	-	4,154,914	7,124,707	738,169	(738,169)	7,124,707
Net assets											
Invested in capital assets, net of related debt	-	-	-	-	-	-	14,607,451	14,607,451	-	-	14,607,451
Restricted:											
Nonexpendable	-	-	-	-	-	1,093,278	-	1,093,278	-	-	1,093,278
Expendable	-	-	-	1,019,099	11,066	-	-	1,030,165	-	-	1,030,165
Jackson Community College Foundation	-	-	-	-	-	-	-	-	7,404,541	-	7,404,541
Unrestricted	693,172	38,130	383,482	-	35,385	(381)	4,886,168	6,035,956	-	-	6,035,956
Total net assets	693,172	38,130	383,482	1,019,099	46,451	1,092,897	19,493,619	22,766,850	7,404,541	-	30,171,391
Total liabilities and net assets	\$ 3,565,936	\$ 48,233	\$ 386,755	\$ 1,102,752	\$ 46,451	\$ 1,092,897	\$ 23,648,533	\$ 29,891,557	\$ 8,142,710	\$ (738,169)	\$ 37,296,098

See independent auditors' report on supplementary information.

JACKSON COMMUNITY COLLEGE
COMBINING STATEMENT OF REVENUES, EXPENSES, TRANSFERS AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2003

	General Fund	Auxiliary Activity Funds	Designated Fund	Restricted Funds	Student Loan Funds	Endowment Funds	Plant Funds	GASB 35 Elimination Entries	College Total	Foundation	GASB 39 Elimination Entries	Combined Total
Operating revenues												
Tuition and fees (net of scholarship allowances of \$2,663,547)	\$ 9,907,070	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (2,663,547)	\$ 7,243,523	\$ -	\$ -	\$ 7,243,523
Federal grants and contracts	18,897	-	-	4,458,461	-	-	-	-	4,477,358	-	-	4,477,358
State grants and contracts	-	-	-	646,727	-	-	-	-	646,727	-	-	646,727
Nongovernmental grants	33,285	-	-	-	-	-	-	-	33,285	-	-	33,285
Potter Center activities	733,847	-	-	-	-	-	-	-	733,847	-	-	733,847
Auxiliary activities - Dahlem and Space Centers	-	351,683	-	-	-	-	-	-	351,683	-	-	351,683
Contract training	486,894	-	-	-	-	-	-	-	486,894	-	-	486,894
Seminars, workshops and other	380,050	-	47,374	378,928	-	-	49,432	-	855,784	-	(349,140)	506,644
Current funds expenditures for capital equipment and improvements	-	-	-	-	-	-	893,253	(893,253)	-	-	-	-
Total operating revenues	11,560,043	351,683	47,374	5,484,116	-	-	942,685	(3,556,800)	14,829,101	-	(349,140)	14,479,961
Operating expenses												
Instruction	12,066,418	-	-	316,584	-	-	-	(333,304)	12,049,698	-	-	12,049,698
Public service	1,064,638	456,887	-	85,179	-	-	-	-	1,606,704	-	-	1,606,704
Academic support	1,909,053	-	14,748	523,081	-	-	-	-	2,446,882	-	-	2,446,882
Student services	1,772,173	-	32,076	4,611,976	2,917	-	-	(2,663,547)	3,755,595	-	-	3,755,595
Administration	2,751,341	-	-	39,552	-	-	-	-	2,790,893	750,509	(349,140)	3,192,262
Operation and maintenance of plant	3,468,040	-	-	14,095	-	-	604,140	(204,949)	3,881,326	-	-	3,881,326
Depreciation and amortization	-	-	-	-	-	-	2,489,949	-	2,489,949	2,005	-	2,491,954
Technology	1,995,905	-	-	-	-	-	-	(355,000)	1,640,905	-	-	1,640,905
Total operating expenses	25,027,568	456,887	46,824	5,590,467	2,917	-	3,094,089	(3,556,800)	30,661,952	752,514	(349,140)	31,065,326
Operating (loss) income	(13,467,525)	(105,204)	550	(106,351)	(2,917)	-	(2,151,404)	-	(15,832,851)	(752,514)	-	(16,585,365)
Nonoperating revenues (expenses)												
State appropriations	12,129,904	-	-	-	-	-	-	-	12,129,904	-	-	12,129,904
Local property taxes	3,810,979	-	-	-	-	-	-	-	3,810,979	-	-	3,810,979
Gifts	-	-	4,750	11,343	-	-	80	-	16,173	254,624	-	270,797
Investment income	38,072	-	4,743	8,558	1,466	25,867	108,639	-	187,345	236,234	-	423,579
Interest expense	-	-	-	-	-	-	(143,092)	-	(143,092)	-	-	(143,092)
Net nonoperating revenues (expenses)	15,978,955	-	9,493	19,901	1,466	25,867	(34,373)	-	16,001,309	490,858	-	16,492,167
Other revenues												
Additions to permanent endowment funds	-	-	-	-	-	-	-	-	-	80,421	-	80,421
Increase (decrease) in net assets	2,511,430	(105,204)	10,043	(86,450)	(1,451)	25,867	(2,185,777)	-	168,458	(181,235)	-	(12,777)
Transfers in (out)	(2,311,434)	96,109	8,026	50,542	-	(26,248)	2,183,005	-	-	-	-	-
Net assets, beginning of year	493,176	47,225	365,413	1,055,007	47,902	1,093,278	19,496,391	-	22,598,392	7,585,776	-	30,184,168
Net assets, end of year	\$ 693,172	\$ 38,130	\$ 383,482	\$ 1,019,099	\$ 46,451	\$ 1,092,897	\$ 19,493,619	\$ -	\$ 22,766,850	\$ 7,404,541	\$ -	\$ 30,171,391

See independent auditors' report on supplementary information.

JACKSON COMMUNITY COLLEGE GENERAL FUND

COMPARISON OF ACTUAL AND BUDGETED GENERAL FUND REVENUES, EXPENDITURES AND TRANSFERS

YEAR ENDED JUNE 30, 2004

	ACTUAL	BUDGET	ACTUAL OVER (UNDER) BUDGET
REVENUES			
State appropriations	\$ 10,860,300	\$ 10,860,300	\$ -
Tuition and fees	11,732,001	10,774,300	957,701
Local property taxes	4,017,328	3,925,000	92,328
Federal grants	20,979	18,000	2,979
Gifts and grants	18,945	30,000	(11,055)
Investment income	21,788	40,000	(18,212)
Potter Center revenues	662,089	658,500	3,589
Contract training	964,508	899,500	65,008
Seminars, workshops and other revenues	404,591	501,000	(96,409)
TOTAL REVENUES	28,702,529	27,706,600	995,929
EXPENDITURES AND TRANSFERS			
Instruction	13,042,605	12,067,302	975,303
Public service	927,363	887,000	40,363
Administrative support	2,273,076	2,478,388	(205,312)
Student services	1,717,590	1,797,550	(79,960)
Administration	3,317,809	3,348,720	(30,911)
Operations and maintenance of plant	3,660,170	3,586,765	73,405
Technology	2,246,803	2,063,575	183,228
TOTAL EXPENDITURES	27,185,416	26,229,300	956,116
Mandatory transfers:			
State and federal matching grants	81,071	48,000	33,071
Debt service	759,300	759,300	-
Other transfers to:			
Auxiliary Activity Funds	70,000	70,000	-
Designated Fund	5,592	-	5,592
Major Maintenance and Replacement Fund	410,875	385,000	25,875
Equipment Replacement Fund	190,000	215,000	(25,000)
TOTAL EXPENDITURES AND TRANSFERS	28,702,254	27,706,600	995,654
REVENUES IN EXCESS OF EXPENDITURES AND TRANSFERS	\$ 275	\$ -	\$ 275

See independent auditors' report on supplementary information.